

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

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FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 3089

INFO AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

C O N F I D E N T I A L KUALA LUMPUR 2145

E.O. 11652: GDS

TAGS: EALR, EIND, EINV, ENRG, MY

SUBJECT: STATUS REPORT ON PETROLEUM NEGOTIATIONS AND PRODUCTION

1. ACCORDING TO INDUSTRY AND GOVERNMENT SOURCES, STATUS OF
PETROLEUM NEGOTIATIONS AND PRODUCTION IS AS FOLLOWS:

(A) EXXON/PETRONAS-NEGOTIATIONS ARE PROCEEDING SLOWLY.
PETRONAS EARLIER TABLED DRAFT WHICH EXXON VIEWS AS EXTREME
AND THUS CONSIDERABLE DISTANCE FROM TERMS WHICH EXXON COULD
ACCEPT. EXXON NOT SURPRISED BY INITIAL PETRONAS POSITION AND
ASSUMES THIS TO BE TACTICAL MOVE. EXXON HAS SUBSEQUENTLY
RESPONDED ORALLY TO DRAFT BUT POSITIONS REMAIN FAR APART.
WORKING-LEVEL DISCUSSIONS CONTINUE SEVERAL TIMES A WEEK, BUT
PROGRESS DESCRIBED BY EXXON AS VERY SLOW. RELATED ELEMENT OF
UNCERTAINTY IS HOW MUCH LONGER RAZALEIGH WILL CONTINUE AS
PETRONAS CHAIRMAN, WHO WILL SUCCEED HIM AND TO WHOM WILL
SUCCESSOR REPORT, I.E., DIRECT TO PM AS FORMALLY REQUIRED OR
INFORMALLY TO RAZALEIGH OR ELSEWHERE. IN THIS REGARD
KADIR SHAMSUDDIN HAS NOT YET BEEN DESIGNATED PETRONAS
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CHAIRMAN (KUALA LUMPUR 1382), BUT EARLY DESIGNATION OF

SUCCESSOR IS EXPECTED. WE ARE OF VIEW THAT NEW CHAIRMAN WILL REPORT DIRECTLY TO PM, PERHAPS MONITORED BY MINISTER CHONG. EXXON CONTINUES PRODUCE ABOUT 5,000 BPD OFF SABAH AND HAS PROPOSED DRILLING ADDITIONAL PRODUCTION WELLS FROM THAT PLATFORM BUT PETRONAS TERMS FOR SPLIT OF RESULTANT REVENUES UNACCEPTABLE TO EXXON. DEVELOPMENT WORK OFF-SHORE PENINSULAR MALAYSIA REMAINS SUSPENDED. EXXON CONTINUES TO HOLD PRODUCTION TEAM IN K.L. BUT THERE IS INCREASING LEAKAGE AS NEGOTIATIONS DRAG ON AND NEED FOR SPECIALISTS ARISES ELSEWHERE.

(B) CONTINENTAL/PETRONAS-CONTINENTAL FINALLY RECEIVED EARLY APRIL PETRONAS DRAFT OF PRODUCTION SHARING AGREEMENT. CONTINENTAL SOMEWHAT TAKEN ABACK BY EXTREME POSITION REFLECTED IN DRAFT. LOCAL REP. HAS CONFERRED IN U.S. WITH CONTINENTAL PRINCIPALS. CONTINENTAL STILL STUDYING DOCUMENT AND MUST CONFER WITH ASSOCIATES, BUNKER HILL AND EL PASO NATURAL GAS BEFORE RESPONDING TO DRAFT. CONTINENTAL EXPECTS LONG DIFFICULT NEGOTIATIONS WITH PETRONAS. NO DEVELOPMENT WORK BEING UNDERTAKEN.

(C) SHELL SARAWAK/PETRONAS-NEGOTIATIONS PROCEEDING SLOWLY. SHELL HAS RESPONDED TO PETRONAS DRAFT BUT POSITIONS FAR APART. PRODUCTION CONTINUING AT ABOUT 100,000 BPD WITH DEPLETION OF OLD WELLS BEING ESSENTIALLY OFFSET BY PRODUCTION FROM NEW WELLS.

(D) SHELL SABAH/PETRONAS-NEGOTIATIONS PROCEEDING ALONG SAME LINES AS SHELL SARAWAK/PETRONAS. PRODUCTION SITUATION IS OF NOTE, HAVING REACHED ABOUT 30,000 BPD AT PRESENT WITH EXPECTATION OF 50,000 BPD BY END 1976. SHELL SABAH HAD JUST POSITIONED PRODUCTION PLATFORM AT TIME OF PETROLEUM ACT AMENDMENT (MARCH 1975) AND DECIDED BETTER TO DRILL PRODUCTION WELLS THAN HAVE PLATFORM IDLE.

(E) LNG PLANT (SHELL/MITSUBISHI/PETRONAS)-BECAUSE OF U.S. \$750 MILLION WORTH OF LNG TANKERS NOW BEING CONSTRUCTED FOR MISC IN FRANCE, RAZALEIGH HAS DETERMINED THAT DEVELOPMENT OF LNG PLANT MUST PROCEED WITHOUT WAITING FOR FORMULATION OF PETROLEUM MASTER DEVELOPMENT PLAN, IN ORDER NARROW GAP BETWEEN CONFIDENTIAL

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COMPLETION SHIPS AND PLANT. ALTHOUGH THERE IS NOW MITSUBISHI REP RESIDENT IN K.L., WE INFORMED BY JAPANESE EMBASSY SOURCE THAT NEGOTIATIONS HAVE NOT BEGUN, ONE PROBLEM BEING DIFFICULTY OF PROJECTING DEMAND OVER NEXT TEN YEARS BY PLANNED USERS (TOKYO GAS AND TOKYO ELECTRIC). IN ADDITION, MITSUBISHI WOULD PREFER SEE OUTCOME OF PETRONAS NEGOTIATIONS WITH SHELL AND EXXON BEFORE PROCEEDING. GOM SOMEWHAT UNDER GUN ON THIS ONE, SINCE REPORTEDLY LNG TANKERS NOT READILY LEASEABLE EVEN IN GOOD TIMES,

WHICH COULD BE REFLECTED IN PRESSURE ON MITSUBISHI TO MOVE SOONER THAN DESIRED. EVEN IN THIS EVENT, IT SEEMS REALISTIC TO EXPECT TANKERS TO BE COMPLETED BEFORE LNG PLANT. IN THIS REGARD, BANKING SOURCES REPORT THAT GOM WILL ASSURE TIMELY PAYMENT OF INTEREST AND PRINCIPAL ON ASSOCIATED LOANS.

(F) DOWNSTREAM (PETRONAS/ESSO, PETRONAS/SHELL)-PETRONAS HAS HAD VERY SPORADIC CONVERSATIONS WITH ESSO AND SHELL CONCERNING THE PURCHASE OF PETRONAS OF A MAJORITY EQUITY INTEREST IN EXISTING REFINERIES AND DISTRIBUTION FACILITIES. NO TIMETABLE HAS BEEN INDICATED AND THERE IS SOME SUGGESTION THAT AT THIS TIME PETRONAS IS INTERESTED IN THE PRINCIPLE OF MAJORITY INTEREST BY THE GOM RATHER THAN IN THE FACT. AN INDUSTRY SOURCE REPORTS THAT SHELL HAS PROVIDED PETRONAS WITH A WRITTEN COMMITMENT TO THIS PRINCIPLE BUT WE HAVE NO CONFIRMATION OF THIS. ACTIVITY BY PETRONAS IN THIS AREA IS VAGUE AND TENTATIVE.
UNDERHILL

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